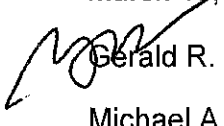





Date: March 15, 2005
To:  Gerald R. Miller, City Manager
From:  Michael A. Killebrew, Director of Financial Management
For: Members of the Budget Oversight Committee
Subject: New Revenue Options

Pursuant to your request for information regarding new revenue options, the following information has been provided for your consideration.

FINANCIAL INFORMATION

	Adopted FY 75 Budget	Adopted FY 85 Budget	Adopted FY 95 Budget	Adopted FY 05 Budget
Population	353,600	391,400	437,816	481,000
General Fund Revenue	\$84,515,633	\$215,705,296	\$286,299,091	\$363,475,254
General Fund Expenses	\$84,515,633	\$230,801,864	\$286,090,128	\$375,009,055
Port Revenue*	\$21,445,500	\$86,734,000	\$313,670,000	\$336,621,000
Port Expenditure	\$44,057,109	\$151,734,000	\$417,032,921	\$448,961,292
Port Transfer*	N/A	N/A	\$5,227,000	\$6,850,000
Gas Revenue	\$28,461,749	\$173,562,000	\$71,034,383	\$91,578,414
Gas Expenditure**	\$28,461,749	\$175,634,276	\$76,066,220	\$94,471,671
Gas Transfer***	\$3,850,000	\$9,132,000	\$20,500,000	\$15,497,360

*Port revenues and expenditures include bond proceeds and the projects they fund. The Port transfer began in FY 96 with a \$5,227,000 transfer into the Tidelands Fund (10 percent of net profit).

**The Gas Budget is based on gas prices and changes significantly year to year.

***The Gas Transfer is a line item of expense included in total Gas expenditures.

1. UTILITY USER TAX (UUT)

A. What steps would be needed to increase the UUT?

Initial steps would include the development of ballot measure language, and research regarding which ballot measures may be most likely to succeed. In line with the timeline outlined below, the City Council would need to adopt a resolution to place a specific measure on the ballot.

A full public discussion amongst proponents and opponents regarding the pros and cons of the ballot measures would need to be held, along with an impartial analysis provided by the City Attorney to provide further information to the community before the election.

B. What are the requirements for each?

Proposition 218 requires a two-thirds popular vote at either a special or general election for any tax whose proceeds are designated in advance for a particular use.

In contrast, a tax that would generate revenue that is not designated or restricted in its use can be approved with a simple majority voter approval, but can only be conducted during a general election.

A possible alternative to obtain a tax for a specific use and that only requires a majority vote would be to have a general tax measure on the same ballot with a non-binding advisory measure, the latter of which would indicate the voters' preference for how the general tax revenues should be spent. However, the City would not be legally required to spend the revenues in accordance with the voters' preference.

C. What would be the timeline for initiating the UUT increase proposal?

The City Council would need to adopt a resolution concerning the City's tax measures at least 88 days prior to the election date. It should be noted, however, that the Los Angeles County Registrar imposes an earlier internal 120-day administrative deadline to place a local measure on a County ballot. Therefore, a resolution would need to be adopted and application submitted on or before January 13, 2006 for the April 11, 2006 election.

D. How much revenue would result from each percentage point increase?

The current UUT rate is 5 percent, which is expected to generate approximately \$40.5 million in Fiscal Year 2005 (FY 05). An additional 1 percent increase would generate between \$7.5 million and \$8 million for the General Fund.

E. How many police officers, support personnel and resources could be funded with each percentage point?

Each percentage point would fund approximately 65 officers based on an average cost of \$115,000 per officer. It is important to remember, however, that the department's command staffing ratios would require one sergeant for every 8 officers added to the force. Furthermore, 1 lieutenant must be added for every 4 sergeants. It is estimated therefore that \$7.5 million dollars could fund only 2 lieutenants, 6 sergeants, 49 officers and their equipment, as well as non-sworn support staff.

F. What would be the anticipated costs to residents for each percentage point?

An increase in the UUT would affect electric, water, gas, and telephone rates. As a sample impact, an average residential gas bill is \$35.05 per month, which would increase by thirty-five cents per each UUT percentage point. Further research would be required to get an average cost for a typical resident for all UUT related bills and payments. If the combined bills total \$150 per month, then the total monthly increased cost would be \$1.50 per month or \$18 per year.

2. SALES TAX

A. What steps would be needed to increase the Sales Tax?

Please see 1A on page two of this memorandum.

B. What are the requirements for each?

Please see 1B on page two of this memorandum.

C. What would be the timeline for initiating the Sales Tax increase proposal?

Please see 1C on page two of this memorandum.

D. How much revenue would result from each percentage point increase?

The current Sales Tax rate is 8.25 percent and is split between the State (6.0 percent), Los Angeles County Metropolitan Transportation Authority (1.00 percent), Los Angeles County (0.25 percent) and the City of Long Beach (1.00 percent). Long Beach is expected to generate \$40.4 million in FY 05 in Sales Tax revenue in FY 05. An additional 0.50 percent increase would generate approximately \$20 million for the General Fund.

E. What types of programs, services and staffing could be funded by an increase in Sales Tax?

Assuming the ballot language does not restrict the use of the revenue, Sales Tax revenue generated with such a ballot measure would be available to support general government programs, services and operations including public safety, library and youth programs.

F. What would be the anticipated costs to residents for each percentage point increase?

An additional increase in Sales Tax would increase the cost of taxable purchases made in the City, which would vary significantly for each resident. Visitors to the city would also contribute toward Sales Tax revenue.

Additional Staff Comments: sales tax is considered a regressive tax as the same percentage increase applies to all income levels equally.

3. FIRE ASSESSMENT

A. What steps would be needed to increase the Fire Assessment?

Please see 1A on page two of this memorandum.

B. What are the requirements for each?

Please see 1B on page two of this memorandum.

C. What would be the timeline for initiating an increase in the Fire Assessment fee?

Please see 1C on page two of this memorandum.

D. How much revenue would result from each percentage point increasing?

Long Beach does not have a Fire Assessment tax. Based on a hypothetical rate of \$30-40 per parcel and an estimated total number of parcels at 102,969 (taxable), the tax would yield \$3.1 million to \$4.1 million annually (not adjusted for inflation). The following chart illustrates the effect of a \$1 increase from \$30-\$40 per parcel.

Parcel Rate	Revenue
\$30.00	\$3,089,070
\$31.00	3,192,039
\$32.00	3,295,008
\$33.00	3,397,977
\$34.00	3,500,946
\$35.00	3,603,915
\$36.00	3,706,884
\$37.00	3,809,853
\$38.00	3,912,822
\$39.00	4,015,791
\$40.00	4,118,760

As a matter of perspective, the Fire Department's FY 05 General Fund budget is \$71.2 million.

Multiple units (i.e., duplex, apartment complex, etc.) are calculated as a single parcel in the above calculation. According to the 2000 census, the actual number of residential units included in the 102,969 parcels is estimated at 170,000 units. An Assessment Engineer would need to be retained to calculate the exact number. Using the number of units as opposed to the number of parcels for this calculation would significantly affect the revenue estimate.

E. How many firefighters, support personnel and resources could be funded?

The average annual cost of a firefighter is \$93,151. Resource needs of the department include paramedic rescue units, infrastructure, technology support, and other support positions and equipment, most of which was identified and recommended in the TriData Fire Services Review Study. **Attachment A** is an illustrative list of resource needs that could be implemented with an annual Fire Assessment with receipts of \$4 million.

F. What would be the anticipated costs to residents for the Fire Assessment tax?

This tax is a flat tax and is based upon on an initial estimate of \$30-\$40 per parcel. However, a determination has not been made on whether the tax would remain constant among all parcels or should vary between residential and commercial parcels.

Additional Staff Comments: On November 2, 1993, California voters enacted Proposition 172, which established a permanent statewide half-cent sales tax for support of local public safety functions in cities and counties. The City of Long Beach received \$3,873,447 during FY 04 and estimates receiving \$3,793,000 in FY 05.

4. LIBRARY TAX

A. What steps would be needed to increase the Library Tax?

Please see 1A on page two of this memorandum.

B. What are the requirements for each?

Please see 1B on page two of this memorandum.

C. What would be the timeline for initiating the increase in the Library Tax?

Please see 1C on page two of this memorandum.

D. How much revenue would result?

Based on a hypothetical rate of \$25 per parcel and an estimated total number of parcels at 102,969, the following chart illustrates the effect of a \$1 increase above \$25-\$35:

Parcel Rate	Revenue
\$25.00	\$2,574,225
\$26.00	2,677,194
\$27.00	2,780,163
\$28.00	2,883,132
\$29.00	2,986,101
\$30.00	3,089,070
\$31.00	3,192,039
\$32.00	3,295,008
\$33.00	3,397,977
\$34.00	3,500,946
\$35.00	3,603,915

As a matter of perspective, the Library Services Department's FY 05 General Fund budget is \$12.7 million.

Multiple units (i.e., duplex, apartment complex, etc.) are calculated as a single parcel in the above calculation. According to the 2000 census, the actual number of residential units included in the 102,969 parcels is estimated to be 170,000 units. An Assessment Engineer would need to be retained to calculate the exact number. Using the number of units as opposed to the number of parcels for this calculation would significantly affect the revenue estimate.

E. What programs and services could be funded?

A Library Focus Group was recently convened to identify levels of service that could be supported by a Library Tax applied to the estimated 170,000 residential units. The Focus Group concluded that a hypothetical \$25 per parcel tax could generate \$4 million and fund or provide supplemental funding for standard operational levels in several areas. Based on their recommendations, library hours could be extended to 6 days/week for all neighborhood libraries and 7 days/week for the Main Library; 15 percent of operating funds could be allocated toward books, materials and electronic resources; and, the virtual library would remain state-of-the-art.

Any additional increase beyond \$25 per parcel would augment other services identified by the Library Focus Group such as literacy programs, community outreach and special events.

F. What would be the anticipated costs to residents?

This tax is a flat tax with an annual CPI increase and is based upon on hypothetical estimate of \$25 per parcel. However, a determination has not yet been made on whether the tax would remain constant among all parcels or should vary between residential and commercial parcels.

5. TRANSIENT OCCUPANCY TAX (TOT)

A. What steps would be needed to increase the TOT?

Please see 1A on page two of this memorandum.

B. What are the requirements for each?

Please see 1B on page two of this memorandum.

C. What would be the timeline for initiating an increase in the TOT?

Please see 1C on page two of this memorandum.

D. How much revenue would result from each percentage point increase?

The current TOT rate is 12 percent applied to every hotel room night. Revenue from one-half, or six of the 12 percentage points, accrues to the General Fund, with the other half split between the Special Advertising and Promotions Fund and the Redevelopment Agency (for the hotels located in the Downtown Redevelopment Area). The TOT is expected to generate \$14.4 million citywide, with \$7.2 million for the General Fund in FY 05. It is estimated that each percentage point could increase the current level of TOT revenue by approximately \$1.2 million annually for the General Fund.

E. What types of programs, services and staffing could be funded by the TOT?

Additional TOT revenue may be used for any purpose, depending on ballot language, or to fund targeted economic development, public arts, and general government operations.

F. What would be the anticipated costs to residents and visitors for each percentage point?

The current average room rate in Long Beach is \$109. Using this as a baseline, it is estimated that each one percent increase would cost Long Beach visitors an additional \$1.09 per night, in addition to the \$13.08 for the 12 percent rate currently in effect. There will be no impact on residents unless they utilize hotel accommodations in the City.

6. PARKING LOT TAX

A. What steps would be needed to increase the Parking Lot Tax?

Please see 1A on page two of this memorandum.

B. What are the requirements for each?

Please see 1B on page two of this memorandum.

C. What would be the timeline for initiating an increase in the Parking Lot Tax?

Please see 1C on page two of this memorandum.

D. How much revenue would result for each percentage increase?

A Parking Lot Tax could be applied to all public and private parking lots located in the City. It could be applied as a percentage of the parking fee or as an ascending tax depending on the parking cost and length of time.

Parking lot operators would be required to collect the tax from parking lot occupants and remit the collections to the City. The annual revenue to be generated from a Citywide parking tax is estimated at \$1.4 million, assuming a 10 percent tax rate.

E. What types of programs, services and staffing could be funded by the Parking Lot Tax?

Revenue generated would be available to support general government programs, services and operations, depending on the ballot language used.

F. What would be the anticipated costs to residents and visitors for each dollar increase?

Long Beach does not currently have a Parking Lot Tax. Depending on the final amount approved, each resident or visitor would pay a 10 percent premium on their total parking costs or an ascending tax depending on the parking cost and length of time.

Additional Staff Comments:

- *Existing City contracts and leases with parking operators, and a few City Parking Garage Bonds, would have to be reviewed to evaluate the legality of such a tax and how the agreements might be affected.*
- *Other cities have parking lot taxes ranging from 10 percent in Los Angeles to 25 percent in San Francisco.*
- *Compliance is a known problem-area as many parking operations run on a cash basis, making it difficult to audit. Also, exemptions are also common for specified City lots, residential parking and long-term hotel residents. The City of Los Angeles collects approximately \$60 million per year from their tax.*
- *San Francisco also expressed problems with compliance. They designate this tax revenue to programs services for senior citizens, public transportation and their general fund. They collect approximately \$56 million per year.*
- *Chicago allows parking operators to retain 1 percent of the tax for administrative purposes.*

7. OIL PRODUCTION TAX

A. What steps would be needed to increase the Oil Production Tax?

Please see 1A on page two of this memorandum.

B. What are the requirements for each?

Please see 1B on page two of this memorandum.

C. What would be the timeline for initiating an increase in the Oil Production Tax?

Please see 1C on page two of this memorandum.

D. How much revenue would result from each one-cent increase?

The current tax is \$0.15 per barrel produced, which is expected to generate \$2.2 million in FY 05. Each additional one-cent would generate approximately \$150,000, based on current production. Oil fields have a limited life and therefore this tax should be assumed to reduce over time.

A benchmark survey conducted by the Oil Properties Department shows the following cities with oil production of 20 cents to 35 cents a barrel: Inglewood, Montebello, Huntington Beach, Santa Fe Springs and Beverly Hills.

E. What types of programs, services and staffing could be funded by the Oil Production Tax?

Revenue generated would be available to support general government programs, services and operations, depending on the ballot language used.

F. What would be the anticipated costs to residents for each one-cent increase?

Oil well operators producing oil in the City would pay this tax.

Staff remains ready to provide additional information that may be requested by the Budget Oversight Committee, and to perform additional research as needed to develop recommendations on the above issues for the City Council's consideration.

Attachments

MAK:sm

K:\Budget\FY05\BOC\3.15.05 BOC Response

cc: Mayor and Members of the City Council
Gary L. Burroughs, City Auditor
Christine F. Shippey, Assistant City Manager
Suzanne R. Mason, Deputy City Manager
Reginald I. Harrison, Deputy City Manager
Department Heads

**Fire Department
Resource Needs**

	Item	Estimated Cost	Comment
1	Continue Rescue unit at Station 12	\$ 150,000	Supported in Fire Services Study. Cost is paramedic skill pay for existing staff.
2	Add a Rescue unit to Station 22.	\$ 825,000	As recommended in Fire Services Study
3	Ensure current Lifeguard protection.	\$ 300,000	Beach protection at risk due to Tidelands shortfall.
4	Facility maintenance, safety upgrades, and gender accommodation for 32 sites, including ECOC.	\$ 250,000	
5	Set aside or debt service for station replacements.	\$ 1,500,000	Stations 7, 9, and 12 based on age and need.
6	Add civilian facility manager for 32 sites, new projects, and ECOC.	\$ 135,000	As recommended in Fire Services Study
7	Upgrade technology; install MDTs in all rigs and units; improve interoperability (minimum).	\$ 250,000	
8	Add civilian technology support.	\$ 110,000	As recommended in Fire Services Study
9	Add civilian safety specialist.	\$ 98,000	As recommended in Fire Services Study
10	Add civilian support for City's emergency preparedness program.	\$ 120,000	As recommended in Fire Services Study
11	Add civilian public education position.	\$ 75,000	As recommended in Fire Services Study
12	Wellness Coordinator	\$ 65,000	As recommended in Fire Services Study
13	Task-specific fitness equipment	\$ 150,000	As recommended in Fire Services Study
14	Clerical support for Community Services	\$ 62,000	

Personnel costs include benefits and support expenses